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**before the**
**FCC's Forum on the E-rate Program**
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## I. Introduction

BellSouth is honored to be asked to participate in the Commission's review of the

Universal Service Schools and Libraries program or "e-rate" program. We believe the e-

rate has been a very successful program. It has triggered enormous growth in the use of

technology to improve education and access to information in the schools and libraries

of the Southeast and across the country. And it has taken what was once a "sleepy"

market segment that attracted little attention from companies and transformed it into

vibrant, competitive growth market for communications products and services.

However, like any program of this size, the e-rate can benefit from review and

improvement, and we commend Commissioner Abernathy and the Commission for

seeking input from the broad e-rate community.

My comments will address three areas: 1) BellSouth's focus on the role of

technology in education; 2) BellSouth's e-rate specific experience and programs; and, 3)

suggestions for improvements that may help prevent waste and error.

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## II. BellSouth's Commitment to Education

BellSouth Corporation's commitment to education predates the Universal

Services Schools and Libraries program by over a decade. In 1986, not long after its

own incorporation, BellSouth established the BellSouth Foundation with one purpose –

improving the quality of educaton in the Southeast. The corporation recognized that a

foundation devoted to improving education could add substantial value to a company

that is dependent on effective education systems to produce both workers and future

customers. To this day, the Foundation strives to be a leader in corporate philanthropy

that is distinguished both by substantive depth and relevance to the overall corporate

mission. Since 1986 the Foundation has awarded 587 grants to 421 institutions,

totaling over $46 million.

The role of technology in education is one of the major focuses of BellSouth

Foundations grant making. [1] The Foundation's technology initiatives are particularly

complementary to the goals of the e-rate program. Most of the programs we fund

support aspects of using technology in schools that are not eligible for direct e-rate

funding. For example, we support projects that help to fully integrate technology into

classroom instruction and particularly projects that encourage leadership to incorporate

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[1] Our other areas of focus include: 1) Leadership: supports leadership building opportunities for teachers, principals, or superintendents for the purpose of imporiving instructional quality in the classroom; 2) Teaching Quality: activities aimed a improving the quality of teaching by fostering and encouraging supportive environments within schools and the community; and, 3) College-Going Minorities: awarded to programs that help increase persistence and success of minority students at institutions of higher education.

technology in a way that enhances teaching, learning, planning, or administration. By advancing our understanding of the impact of education technology, BellSouth Foundation's programs help create an environment that can ensure better utilization of e-rate funds.

The cornerstone of BellSouth's technology program is the "edu.pwr3" initiative, a $10 million commitment launched in 1998. BellSouth edu.pwr3 focuses on unleashing the transformative power of technology for learning by providing educators and students with hands-on opportunities to develop understanding, skills and new ideas for harnessing the energy of technology to every aspect of teaching, learning and school management.

The "Power to Lead" component of the program, begun in 1999, helped 65 school superintendents gain a better understanding of their leadership role in the vision and deployment of technology for learning in their districts.

"Power to Teach", begun in 2000, offers teachers from 50 school districts an opportunity for high-quality training and proficiency in applying technology to the curriculum and standards of their school systems. A report of the findings of the Power to Teach project was released on March 27, 2003. "The Big Difference: The Growing Technology Gap Between Schools and Students" states that while teachers are making

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progress in their ability to harness the power of technology, students increasingly are saying they are hungry for more opportunities to use technology in the learning experiences. Technology is changing the relationship between teachers and students.

The BellSouth Foundation's focus now is on the final component of edu.pwr3, "Power to Learn," which concentrates on a small number of schools in the Southeast. With these schools, we are investigating new ways in which technology can be applied to enhance student learning and achievement. We have chosen as partners in this effort schools that already have high concentrations of technology infrastructure, technology-savvy leaders and teachers, technology support and assistance, and community buy-in. Our hope is to understand better what changes in these kinds of schools - for students, for teachers, for other adults, and between and among them all - regarding learning, and then develop and share powerful stories and meaningful lessons about such learning environments. Expected outcomes include:

- The analysis of innovative technology applications based on "science of learning" principles and how these lead to improved student learning and efficient school operations.
- The development of new measures, beyond test scores, to understand technology's impact on learning strategies.
- A network of individuals with exceptional capacities for creative thinking who can inspire others.
- Case studies that illustrate vividly how such new learning operates within communities of students and adults and how schools succeed in sustaining effective technology use

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In addition to the edu.pwr3 initiatives, BellSouth undertakes many other targeted technology-related programs. For example, BellSouth is a lead underwrwiter for *Children, Families and the Internet 2002,* a national survey of child/arent Internet use and attitudes conducted by Grunwald Associates and the Corporation for Public Broadcasting. Data from the survey provides information on Internet use in the home, the relationship between home use and school use, the added value of broadband connections and the impact technology has on learning. To help train students on how to avoid cyber danger, BellSouth has launched a 2003 project entitled "Kids & the Internet." Inaddition to a "Promoting Online Safety Toolkit" and other website resources, the "Internet Coach," a Discovery Channel celebrity, will visit 18 cities in BellSouth region to train students on safe Internet use.

BellSouth grants have also been used to develop Interactive tools and hands on training that help schools incorporate technology into their curriculum. Education tools sponsored by BellSouth include the a) "Smart Budget Toolbox" a web-based budgeting tool to help district managers implement their technology plans; b) An on-line Professional development database to help schools make informed choices about technology training options available; c) "TAGLIT" or Taking a Good Look at Insturction Technology, a suite of assessment tools designed to help principals and other school leaders analyze how technology is used for teaching and learning in their schools, and d) BellSouth Education Gateway which provides a host of cutting-edge ideas,

information about successful technology-based education programs, and links to other resources.

### III. BellSouth's Commitment to the E-rate

BellSouth's exceptional commitment to edcuation translated naturally into strong support for the e-rate program and our e-rate customers. BellSouth has played a proactive leadership role in the development of the e-rate program since its launch in 1996. From the outset, BellSouth recognized that the e-rate program would be an important resource for many of its existing school and library customers as well as an opportunity to improve our participation in the education market. Based on the language of the Telecom Act and the FCC's implementing Order, service providers play a critical role in making the e-rate a success. Schools and libraries receive the ultimate "benefit" but service providers are responsible for "delivering the discounts."

As a result, BellSouth committed resources to lead a LEC coalition that worked with the Universal Service Administrative Company and with the FCC as the details of program procedures and rules were fleshed out. As willing beta testers, BellSouth and other LECs assisted in the development of a number of procedures necessary to delivering e-rate benefits to schools and reimbursing service providers in a timely manner. BellSouth has also been named to every USAC e-rate task force to date, including the 3-year Task Force, the Service Provider Manual Team, the SLD "Swat

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Team," and the current Waste, Fraud and Abuse Prevention Task Force."

In the marketplace, BellSouth is one of the Top 5 service providers under the e-rate program and has provided its customers with nearly $350 million in benefits since the start of the program. Among the items which BellSouth is extremely proud of has been its ability to provide our customers with a choice of payment options. BellSouth was among the first service providers in the country to be able to offer its customers the ability to receive their benefits in either the form of a reimbursement check or as a credit on their bill.

BellSouth provides voice and/or data services to 29 out of the largest 100 school districts in the United States and over 3,000 other school and library customers in the Southeast. BellSouth has worked closely with the state Departments of Education in our region to help with the program outreach by jointly sponsoring events, speaking at the conferences and advising them on problem situations.

Over 500 BellSouth employees are trained in e-rate methods and procedures in order to provide appropriate assistance to e-rate customers, or potential customers, in our nine-state region. In addition, BellSouth has dedicated e-rate support personnel who serve as single points-of-contact for customers who have been approved for e-rate funding. In addition to handling customer inquiries, this special USF Customer Care

group proactively helps ensure that customers receive their benefits by:

- Contacting customers who appear on the master e-rate list after they have been approved for funding, to advise them where to call for assistance within BellSouth.
- Assiting customers to provide information necessary to enabling them to receive discounts on their bills
- Assisting customers in completing Billed Entity Applicant Reimbursement (BEAR) reimbursement process
- Notifying customers of impending deadlines:
  - o Call all customers who have not yet submitted Form 486 and/or BEAR forms to remind them to do so.
  - o As "drop-dead date" for BEAR form submission approaches, contacting all customers via phone or email to remind them of urgency related to sending in BEAR forms prior to the final due date.

As you can tell, BellSouth takes it's responsibilities as an e-rate service provider seriously. We believe that service providers are essential partners in the e-rate process. Every service provider should be doing what they can within their own operations to prevent waste and error and ensure their own compliance. However, it would be inappropriate for service providers, or any participant other than the FCC and USAC, to be given the express responsibility of policing others for compliance with program rules.

## IV. Opportunities for Improving the E-rate

BellSouth agrees that a program of this scale and scope must naturally be reviewed and improved periodically. Such a review is even more necessary given the speed with which the Commission and USAC developed and implemented this program.

I believe it is fair to say that it was like being asked to build an airplane as it sped down the runway. Everyone involved deserves enormous credit for not only getting the "plane" in the air, but keeping it there as constant rule changes have required significant "in-flight" modifications.

I am confident that neither Congress nor the FCC could have fully understood all the complexities of the program they had created or the issues that would arise. That is pretty clear by the lack of enforcement mechanisms in the original rules. Now that we have all had several years of experience with the e-rate we have the opportunity to make more informed decisions. BellSouth strongly supports the Commission's effort and believes the top priority should be ensuring the long term sustainability of the e-rate program. The current health of the Universal Service mechanism as a whole precludes increasing the funds available for e-rate. Instead we must find ways to better ensure that the limited funds available are being used to 1) meet the original intent of the program, and 2) to benefit the largest possible number of schools and libraries. Doing so may mean the Commission is faced with some difficult choices, but if it means fulfilling the promise of the e-rate for many years to come, it will have been worth it.

As a leading service provider, BellSouth has been "on the ground" with the e-rate and our e-rate customers from day one. Based on BellSouth's experience there appear to be three fundamental triggers for waste and error: 1) rules that create wasteful incentives;

2) complicated or poorly crafted procedures that invite error; and 3) lack of program

knowledge.   Our suggestions for change attempt to offer solutions in these three areas.


*1. Reduce Wasteful Incentives*

a. <u>Adjust the discount matrix to reduce the highest discount level</u>.  BellSouth

supports the Council of Chief State School Officers' (CCSSO)  proposal to reduce

discount levels for internal connections and believes the Commission should also

consider reducing the discounts for telecommunications and internet access.  We

recognize that this would not be an easy or popular decision, but we believe it is critical

to ensuring the sustainability of the program.  While there is no doubt the current 90%

discount level has helped many deserving institutions, it has also distorted market forces

to the detriment of the program.  Applicants do not have enough incentive to control

project costs and service providers have too much incentive to inflate costs by selling

services at technology levels far beyond needs for similarly situated schools and libraries

nationwide.   Adjusting the discount matrix would put natural market forces back to

work in favor of e-rate compliance, as opposed to the "gold rush" mentality that a 90%

discount has created.  We believe that the discount should not exceed 75% or 80%.


Adjusting the discount matrix would also allow limited e-rate benefits to reach

more schools and libraries.  Many schools in the lower discount percentages have never

received "Priority Two" funding for internal connections.  Not surprisingly the

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percentage of the fund going to telecommunications and internet access has increased

each year as more schools are wired. Under the current discount matrix, the entire fund

will be absorbed by "Priority One" telecom and internet services in the very near future.

Reducing discounts for all services will spread the current fund further.


    b. Limit transfer or funding of capital equipment. BellSouth agrees that some

type of limit on transfering internal connections equipment and/or upgrading such

equipment too frequently makes sense. The absence of any rules addressing this issue

creates an opportunity to "game the system" which undermines the intent of the

"neediest first" policy. Several approaches have been offered. BellSouth supported the

3 year/10 year limits proposed in the NPRM and believes a "useful life" methodology

could be effective as well. If applicants are restricted from purchasing new internal

connections every year, it may be appropriate to allow some limited amount of funding

for post-warranty maintenance at appropriate industry levels in order to allow purchased

equipment to be used across its useful life. In determining which approach to adopt, the

Commission should pay special attention to the feasibility of implementing and

enforcing the solution. If you set "useful lives" for each piece of equipment, how would

you monitor or enforce compliance? Would allowing funding for internal connections

only every third year put the control more in USAC's hand's and thus be more effective?


    c. Require economically reasonable solutions. The current program places few, if

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any, restrictions on the type of service an applicant can purchase and relys largely on the competitive bid process to ensure prices are reasonable. Combined with a 90% discount level, there is some question as to whether applicants are making the most economical, and fair, purchasing decisions for themselves or the fund. Reducing the highest discount level should encourage more economical behavior, however, there are other steps the Commission could consider. For example, the Commission could require more rigorous needs assessment and compliance with technology plans to ensure applicants are ready to fully utilize supported products and services. In addition, the Commission could more effectively implement the current "lowest corresponding price" rule (CFR 47 54.511(b)). This rule requires service providers to offer schools and libraries "pre-discount" prices that are as low as they offer to "similarly situated" non-residential customers. In other words, it requires service providers to offer legitimate market prices.

### 2. Develop Effective Rules and Procedures

a. Eliminate post-commitment distinction between recurring and non-recurring services. When applicants apply for funding for a telecommunications service, they must indicate separate amounts for non-recurring charges (i.e., installation) and recurring monthly charges. Dollars are committed in these same two categories for each telecom service. BellSouth agrees that making a distinction between non-recurring and recurring charges during funding is appropriate and enables USAC to assess the reasonabiness of

charges. However, BellSouth does not believe the distinction is relevant during the post-commitment invoicing process and doing so has caused some schools to forfeit funding due to clerical errors on invoices. BellSouth has seen schools inadvertantly check the "non-recurring" box on an invoice when they should have checked "recurring." If their non-recurring commitment category is depleted, USAC will deny their invoice even if they still have adequate funding in the recurring category. Once the commitment has been made the distinction between non-recurring and recurring is not relevant -- it is all the same telecommunications service -- and it is just another rule a school has to remember or risk loosing their funding.

b. Rules and controls should not be one-size fits all. The FCC and USAC have traditionally implemented rules and procedures that apply equally to internal connections, telecommunications, and internet services and to large and small companies equally, regardless of their credit risk or track record with the program. This limits the potential tools available to control waste, fraud, and abuse and does not reflect the different risks associated with each type of service or provider.

For example, internal connections typically involve large one-time contracts and payments with no ongoing customer relationship. In addition, only certain types of equipment are eligible for funding. Telecommunications and internet service providers, on the other hand, have long term customer relationships with monthly recurring billing.

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Many telecommunications services are provided at tariffed rates. With the recent inclusion of voice mail as an eligible service, only 1% of BellSouth's communications product line could ever be "per se" ineligible.[2] The nature of the product/service, customer relationships, and associated risks are so different that establishing different oversight procedures would also be appropriate.

Targeting controls more narrowly according to risk will increase their effectiveness and reduce cost and "collateral damage." Take for example, a recent proposal to require all BEAR reimbursement checks to be two party checks. I believe the suggestion was made in response to a limited number of cases where service providers had deposited the check and not reimbursed the school. There is no doubt that there is a limited problem that needs to be solved. But the solution would have cost BellSouth, and other LECs who process hundreds of BEAR reimbursements a month, thousands of dollars to implement. I know for certain that BellSouth always reimburses e-rate customers promptly. Raising administrative costs and complexity for all participants to solve very limited problems will reduce the effectiveness of the program.

c. Expose more policy and procedural issues to public review. Many major

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[2]Prior to April 23, 2003 Order, only a few telecommunications services were considered outright ineligible either by FCC rule or USAC procedure. These services were voice mail, directory listings, public telephone, 900 service, inside wire, and burglar alarm. Purchase of these ineligible services accounted for only 4% of the telecommunications services purchased by BellSouth's e-rate customers, with voice mail alone accounting for 3%. Now that voice mail is an eligible service, there are no signficant telecommunications services that are not eligible for funding if they are used for eligible purposes.

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policyor procedural decisions that impact all participants have been made during the review of individual appeals. The broad e-rate community has had no opportunity to comment and the FCC's decisions are made based on limited information. This affects the quality of the decisions and contributes to confusion over rules/procedures since not all participants follow appeal decisions closely. BellSouth believes that any initial action on an appeal that raises major procedural issues should apply only to the parties involved. The question of whether to apply the same solution more broadly should be put out for public comment.

d. Recognize the service provider's role when developing procedures. From the e-rate's start the first priority of the FCC and USAC was outreach to schools and libraries and processing applications. There was no outreach to service providers, very little information to guide them, and few procedures to address the service provider side of the equation. Even for service providers trying to do the right thing, It was a very difficult environment in which to try to "comply." Lack of information or reliance on misinformation led to errors. Processes and procedures that did not take into account how service providers operate led to wasted time and energy. Thankfully, the situation has improved substantially. USAC now has resources available for service providers and an upper level management position devoted to service provider issues. But we should not forget the lesson. The program will run smoothly only if all the needs of all participants are considered.

### 3. *Improve Program Knowledge*

a. Continue auditing and enforcement and publicize results. The recent increase in USAC applicant audits is a significant improvement – not only for program enforcement but also for enhancing knowledge of program rules. Similar audits should be a regular part of the program and the results (with names omitted) should be widely publicized as "lessons learned." USAC should be provided with additional targeted funding to enhance and maintain its auditing and enforcement programs.

b. Increase official outreach activities. USAC appears to have reduced official outreach and training activities to applicants in recent years. Outreach to service providers was not introduced until 2000 and could still be enhanced. Early outreach focused on "getting the word out" about the existence of the program. While the e-rate is now well known, BellSouth believes it is still very important to get the "right" word out about program rules and procedures, and that means from USAC itself. Without a strong USAC presence in this area, the search for knowledge and expertise often leads to consultants or service providers. While reputable consultants and providers clearly exist, others may have questionable knowledge and motives. USAC should enhance outreach and training activities and continue to upgrade online and telephone support.

Thank you again for inviting BellSouth to participate in this important forum. I

hope that our suggestions are helpful to your deliberations. We look forward to

continuing to work with the Commission and USAC as they take steps to improve the e-

rate program and ensure its sustainability.